

Message Text

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SUBJ: MOV NEGOTIATIONS: REVISED DRAFT TEXT OF LETTER TO FINANCE
MINISTER

NEW DELHI FOR O'DONNELL (AID)

REF: STATE 138022

1. FOLLOWING IS REVISED DRAFT TEXT OF LETTER TO BE SIGNED BY
AMB AND ENDORSED BY FINANCE MINISTER JUNE 28. FINANCE
SECRETARY COOREY HAS CONCKERED IN PRINCIPLE, BUT
LAST-MINUTE PROBLEMS COULD STILL ARISE.

2. BEGIN DRAFT TEXT. COLOMBO, JUNE 28, 1974.

DEAR MR MINISTER:

YOU WILL RECALL THAT, IN OUR MEETING OF JANUARY 31, I
RAISED THE DESIRABILITY OF REACHING AGREEMENT AS RAPIDLY AS
POSSIBLE ON THE LONG-OUTSTANDING MAINTENANCE OF XDALUE AND
OTHER ISSUES CONCERNING SEVEN UNITED STATES LOANS DESIGNATED
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AS LOANS ICAX-1, ICAX-2, AND ICAX-3 (THE "ICA LOANS") AND
DLF LOANS NUMBERED 4, 8, 9, AND 156 (THE "DLF LOANS").
YOU SUGGESTED THEP THE BEST PROCEDURE TO ACHIEVE THAT END
WOULD BE FOR ME TO UNDERTAKE NEGOTIATIONS WITH MR CHANDANA

A. COORE, KCRETARY, MINISTRY OF FINANCE, WITH THE UNDERSTANDING THAT I WOULD BE FREE TO CALL UPON YOU WHEN I THOUGHT NECESSARY. THOSE MEETINGS WITH MR COOREY HAVE PROCEEDED ON A REGULAR BASIS.

ON JUNE 6 YOU AND I DISCUSSED THE CURRENT NEGOTIATING SITUATION AND FURTHER PROGRESS WAS MADE, AND WE AGREED TO SEEK TO REACH AGREEMENT THIS MONTH SO THAT A SETTLEMENT COULD GO INTO EFFECT ON JULY 1, 1974.

I AM VERY PLEASED TO REPORT THAT, AFTER MORE MEETINGS WITH MR COOREY, WE HAVE ARRIVED AT AN UNDERSTANDING ON THE OUTSTANDING ISSUES.

IN THE INTEREST OF REACHING A SETTLEMENT QUICKLY, THE UNITED STATES, WHILE FIRMLY ADHERING TO THE PRINCIPLE THAT THE MAINTENANCE OF VALUE CLAUSE IS APPLICABLE TO ALL ICA LOANS, NEVERTHELESS PROPOSES A COMPROMISE FORMULA, AS FOLLOWS:

(A) APPLICABLE RATES OF EXCHANGE ON THE ICA LOANS.

(1) PURSUANT TO THE TERMS OF THE RESPECTIVE ICA LOAN AGREEMENTS, IT IS MUTUALLY AGREED THAT ALL SUMS BECOMING DUE AND PAYABLE ON OR AFTER JULY 1, 1974 ON LOANS ICAX-1 AND ICAX-2 SHALL BE PAID AT THE OFFICIAL RATE OF EXCHANGE PREVAILING ON THE DATE OF PAYMENT AND ALL SUCH SUMS DUE AND PAYABLE ON LOAN ICAX-3 SHALL BE PAID AT THE FOREIGN EXCHANGE ENTITLEMENT CERTIFICATE ("FEEC") RATE OF EXCHANGE PREVAILING ON THE DATE OF PAYMENT; IT ZYING UNDERSTOOD THAT THE RESPECTIVE DATES OF PAYMENT FOR EACH OF THE ABOVE LOANS ARE AS SET FORTH IN THE AMORTIZATION SCHEDULE NOW EXISTING WITH RESPECT TO EACH LOAN.

(2) ALL SUMS DUE ON THE ICA LOANS PRIOR TO JULY 1, 1974 AND UNPAID ON SUCH DATE SHALL BE PAID AT THE OFFICIAL RATE OF EXCHANGE PREVAILING ON THE SCHEDULED DATES FOR PAYMENT OF ARREARAGES AS DESCRIBED IN PARAGRAPH (B) OF THIS LETTER.

(B) ARREARS AND PAYMENT SCHEDULE.

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(1) ARREARAGES AS SUCH TERM IS USED IN THIS SAWTION REFERS TO ALL SUMS OF PRINCIPAL AND INTEREST DUE AND UNPAID AS OF JULY 1, 1974 (THE SUSPENDED PAYMENTS) ON THE ICA AND DLF LOANS. IN COMPUTING SUCH ARREARAGES IT IS UNDERSTOOD THAT INTEREST ON THE UNPAID AND DEFERRED BALANCES UNDER EACH LOAN FROM JANUARY 1, 1973 TO JULY 1, 1974 HAS BEEN CHARGED AT THE APPLICABLE CONTRACT RATE OF INTEREST SET FORTH IN THE RESPECTIVE UNDERLYING LOAN AGREEMENTS AND, WHEN DUE IN ACCORDANCE WITH THE RESPECTIVE EXISTING AMORTIZATION SCHEDULES, SUCH INTEREST HAS BEEN CAPITALIZED (ADDED TO THE PRINCIPAL BALANCES DUE). ON JULY 1, 1974 AND THEREAFTER UNTIL THE LOANS ARE PAID IN FULL IT IS FURTHER UNDERSTOOD THAT INTEREST ON THE OUTSTANDING BALANCES

OF THE RESPECTIVE LOANS, INCLUDING ANY DUE AND UNPAID INTEREST THEREON AND DUE AND UNPAID ARREARAGES, SHALL ACCRUE AND BE PAYABLE AT THE APPLICABLE CONTRACT RATE OF INTEREST SET FORTH IN THE UNDERLYING ICA AND DLF LOAN AGREEMENTS.

(2) THE ARREARAGES ON THE ICA AND DLF LOANS SHALL BE PAID, TOGETHER WITH INTEREST ON THE DECLINING BALANCE THEREOF, IN APPROXIMATELY EQUAL SEMI-ANNUAL INSTALLMENTS OVER A PERIOD NOT TO EXCEED FOUR YEARS COMMENCING ON OR AFTER JULY 1, 1974. THE SPECIFIC PAYMENTS DUE FOR EACH RESPECTIVE LOAN SHALL BE MADE ON DATES IDENTICAL TO THE PAYMENT DATES APPEARING IN THE EXISTING AMORTIZATION SCHEDULE FOR EACH LOAN, EXCEPT THAT FINAL ARREARAGE PAYMENTS ON LOANS ICAX-3 AND DLF-156 SHALL BE MADE ON JULY 1, 1978; AND EXCEPT THAT ARREARAGES ON LOAN DLF-4 SHALL BE PAID IN SEVEN APPROXIMATELY EQUAL SEMI-ANNUAL INSTALLMENTS, THE LAST TO COINCIDE WITH ITS MATURITY DATE, DECEMBER 1, 1977.

(C) SUPPLEMENTAL RUPEES DUE ON THE DLF LOANS (THE DIFFERENCE BETWEEN THE PAYMENTS MADE AT THE OFFICIAL RATE DURING THE PERIOD FROM MAY 8, 1968 TO SEPTEMBER 30, 1970 AND THE FEEC RATE IN EFFECT ON THE ORIGINAL DUE DATES FOR THE RESPECTIVE BILLINGS) SHALL BE PAID IN ACCORDANCE WITH THE SCHEDULE FOR ARREARAGES SET FORTH IN PARAGRAPH (B)(2) ABOVE, EXCEPT THAT SUPPLEMENTAL RUPEES DUE ON LOAN DLF-8 SHALL BE PAID IN A LUMP SUM ON JULY 1, 1974 INASMUCH AS LOAN DLF-8 IS OTHERWISE FULLY PAID. IT IS UNDERSTOOD THAT NO INTEREST WILL BE CHARGED ON THESE SUPPLEMENTAL RUPEE AMOUNTS WHICH WERE DUE BETWEEN MAY 8, 1968 AND SEPTEMBER 30, 1970 THROUGH JUNE 30, 1974. ON JULY 1, 1974 AND THEREAFTER UNTIL THE SUPPLEMENTAL RUPEE

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AMOUNTS ARE PAID IN FULL, INTEREST SHALL BE CHARGED AT THE APPLICABLE CONTRACT RATE OF INTEREST SET FORTH IN THE UNDERLYING DLF LOAN AGREEMENTS.

IF YOU ARE IN AGREEMENT WITH THIS PROPOSAL, I SHOULD APPRECIATE YOUR SO CONFIRMING BY YOUR SIGNATURE ON THE ENCLOSED COPY OF THIS LETTER IN THE SPACE PROVIDED BELOW WHICH WILL CONSTITUTE AN AGREEMENT DATED AS OF JULY 1, 1974. THE UNITED STATES GOVERNMENT SHALL PROMPTLY UPON RECEIPT OF YOUR COUNTERSIGNATURE PREPARE AN IMPLEMENTATION LETTER SETTING FORTH REVISED AMORTIZATION SCHEDULES IN ACCORDANCE HERewith. EACH OF OUR GOVTS UPON REQUEST WILL EXECUTE SUCH FURTHER DOCUMENTS AS MAY BE NECESSARY AND PROPER TO IMPLEMENT THIS AGREEMENT. TO THE EXTENT NOT EXPRESSLY MODIFIED HEREBY, IT IS UNDERSTOOD THAT THE TERMS AND CONDITIONS OF THE ICA AND DLF LOANS SHALL REMAIN IN FULL FORCE AND EFFECT.

I AM GRATIFIED THAT WE HAVE BEEN ABLE TO WORK OUT A REASONABLE AND EQUITABLE ARRANGEMENT AND SO RESOLVE WHAT YOU AND I NOTED ON JUNE 6 WAS THE ONLY OUTSTANDING BILATERAL PROBLEM BETWEEN OUR TWO GOVERNMENTS AND AN ISSUE OF CONTENTION FOR MORE THAN FIVE YEARS. THE RESOLUTION OF THIS VEXING ISSUE IS

A FURTHER REFLECTION OF THE GOOD RELATIONS EXISTING BETWEEN OUR TWO COUNTRIES. VERY TRULY YOURS, CHRISTOPHER VAN HOLLEN, AMBASSADOR OF THE UNITED STATES OF AMERICA. ACCEPTED AND AGREED BY DR. N.M. PERERA, MINISTER OF FINANCE, GOVERNMENT OF SRI LANKA, COLOMBO, JUNE 28, 1974. END DRAFT TEXT.

3. DEPT WILL NOTE FROM FOREGOING THAT QUESTION OF SUPPLEMENTAL RUPEES DUE ON DLF LOAN PAYMENTS BETWEEN MAY 8, 1968 AND SEPTEMBER 30, 1970 ARE DEALT WITH IN PRESENT LETTER OF AGREEMENT. AMB AND COOREY HAVE NEGOTIATED THROUGHOUT CURRENT ROUND ON BASIS THAT TERM "ARREARAGES" INCLUDED BOTH SUSPENDED BILLINGS AND SUPPLEMENTAL RUPEES, AS DEPT CLEARLY DEFINED ISSUE IN NUMBERED PARA 1 OF DEPTS BASIC, COMPREHENSIVE TELEGRAM ON ARREARAGES (YLA 69621). BECAUSE OF GSL DEBT SERVICE BURDEN, COOREY CHOSE SECOND ALTERNATIVE OF PAYMENT SUPPLEMENTARY RUPEES OVER FOUR-YEAR PERIOD AS WITH ARREARAGES FROM SUSPENDED BILLINGS, WITH INTEREST AT CONTRACT RATE FROM JULY 1, 1974 TO PAYMENT DATE.

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4. IN PARA (B)(2) OF DRAFT TEXT, WE HAVE INCLUDED PRECISE STATEMENT RE FINAL ARREARAGE PAYMENTS ON ICAX-3 AND DLF-156 BECAUSE INITIALLY GSL TOOK FOUR-YEAR REPAYMENT SCHEDULE AS RUNNING FOUR YEARS FROM FIRST PAYMENT, WHENEVER THAT FELL DUE IN EXISTING AMORTIZATION SCHEDULE, THUS IN SOME CASES EXTENDING BEYOND JULY 1, 1978 (FOUR-YEAR PERIOD FOR WHICH WE HAVE CIRCULAR 175 AUTHORITY). IN CIRCUMSTANCES WE WISH AVOID ANY MISUNDERSTANDING. WE HAVE ALSO INCLUDED SPECIFIC LANGUAGE ON DLF-4 BOTH TO ENSURE FINAL PAYMENT IS MADE ON MATURITY DATE AND TO SHOW SEVEN INSTALLMENTS RATHER THAN NINE AS ON OTHER

LOANS SO THAT REVISED AMORTIZATION SCHEDULE WILL BE AGREED.

5. WE NOTE THAT DEPT HAS CONFIRMED OUR UNDERSTANDING (COLOMBO 1739, PARA 3C) AS TO INTEREST HAVING BEEN INCLUDED IN JULY 1, 1974 ARREARAGES ON PRINCIPAL PORTION OF SUSPENDED PAYMENTS (INTEREST ON INTEREST HAVING WAIVED UP TO JANUARY 1, 1973). DEPTS TEXT (PARA (B)(1)) DOES NOT REFLECT INTEREST CHARGE ON PRINCIPAL BEFORE JANUARY 1, 1973. WE THEREFORE PROPOSE INSERTION OF SPECIFIC LANGUAGE AFTER FIRST SENTENCE PARAGRAPH (B)(1) OF DRAFT LETTER OF AGREEMENT, THAT IS, AFTER "DLF LOANS", AS FOLLOWS. IF DEPARTMENT CONCURS, WE SHALL TAKE UP WITH COOREY, WITH WHOM WE HAVE NOT DISCUSSED MATTER. QUOTE. FOR THE PERIOD FROM THE DUE DATE OF THE RESPECTIVE SUSPENDED PAYMENTS TO DECEMBER 31, 1972, INTEREST WAS CHARGED AT THE APPLICABLE LOAN RATES ON PRINCIPAL ONLY (INTEREST ON INTEREST DUE ON THOSE DATES HAVE BEEN WAIVED) AND WAS ADDED TO THE SUSPENDED PAYMENTS TOTAL AS OF DECEMBER 31, 1972 TO FORM THE BASE UPON WHICH INTEREST FROM

JANUARY 1, 1973 TO JULY 1, 1974 WAS COMPUTED. UNQUOTE.

6. REQUEST DEPARTMENT'S COMMENTS AND CONCURRENCE ON DRAFT
TEMR BY IMMEDIATE CABLE BEFORE OPENING OF BUSINESS COLOMBO
TIME FRIDAY, JUNE 28.
VAN HOLLEN

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